

PARTNERSHIP FOR CEM WITH A VIEW TO EXPANDING THE NETWORK OF SAVINGS SERVICES

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LIST OF ACRONYMS

	French	English
AGEPMF	Agence d'Exécution de Projet Micro finance	
BOA		Bank of Africa
BTA	Bon de Trésor	Treasury bond
CA		Credit association
CCP	Comptes de Chèques Postaux	Postal checking accounts
CDC	Compte de Dépôt et Consignation	
CEM	Caisse d'Epargne de Madagascar	
CIDR	Centre Internationale de Développement et de Recherche	
CNAPS	Caisse National de Prévoyance Sociale	
CRS		Catholic Relief Service
CSBF	Commission de Supervision Bancaire et Financière	Banking and Financial Supervision Commission
EPIC	Entreprise Public à caractère Industriel et Commercial	Public industrial and commercial enterprise
FID	Fonds d'Investissement pour le Développement	
FMG		Malagasy franc
GRET	Groupement de Recherche et d'Echanges Technologiques	
ODDER	Organisme Diocésain de Développement Rural	
PAMF	Projet d'Appui à la Micro finance	Projet d'Appui à la Micro finance
PAMF	Projet d'Appui à la Micro Finance	
PHBM	Projet de Mise en Valeur du Haut Bassin de la Mandrare	
PSDR	Programme Sectorielle de Développement Régionale	
QMM		Quit Minerals Madagascar
SA	Société anonyme	Limited liability company
UNEF		United Nations Equipment Fund
USAID		United States Agency for International Development

EXECUTIVE SUMMARY

This report presents the various forms of and approaches to partnerships that the CEM could develop or test to expand its network for attracting savings, particularly rural savings.

The situation of CEM

The Caisse d'Epargne de Madagascar (CEM) collects savings. It has 18 branches located in towns throughout the island serving some 650,000 savers at the end of 2001. Its assets were FMG 260 billion at the end of that period. Its current bylaws require the CEM to deposit its funds with the Public Treasury.

It is currently the leader in Madagascar with 43% of the formal voluntary savings market. The collected savings have considerably increased over the past few years with the growth of the number of branches located in towns: 25% growth in 2000 (more than FMG 50 billion in absolute terms) and 20% in 2001 (more than FMG 50 billion in absolute terms). There was stagnation in 2002 due to the crisis.

A law converted the CEM into a joint-stock company (SA, *société anonyme*) in 2001. The implementing decree has just been approved at the governmental level in 2003. The policy of divestment by the state has been accepted, but the public powers want to keep a major role by retaining 36% of the equity capital. There is currently no schedule for this divestment.

The institutional aspect

The CEM will be privatized, but it obviously has a public and social role to play by providing financial services to the largest number of people, according to the decree of 1985 that specifies its activities and given the lack of new bylaws. In our opinion, there is not yet an institution that can play this role and have this capacity for action in the near future.

The CEM should accentuate its capability to collect rural savings, and the public authorities should *give very favorable specific regulatory status* to the CEM so that it can fully play its role for the good of the country. A more thorough institutional study should probably be conducted to establish the future positioning of the Caisse d'Epargne de Madagascar.

Lending activity

To supplement its current services, the CEM should offer lending or refinancing to improve financial services to the population sector that is experiencing difficulties. That activity requires a license from the Banking and Financial Supervision Commission (CSBF). However, current legislation is not favorable for the CEM to obtain a license that suits its mission and objectives.

With regard to the license, the best position for CEM to take is therefore to ask the CSBF for a new, more favorable regulation that is general or specific to the CEM to be issued by the public authorities.

The approach to collecting rural savings

It will be seen that a system for the collection of rural savings is capable of not running a deficit if it is run professionally and with the necessary means. It will also be seen that its profitability is not as good as that in the urban environment. The collection of rural savings would fit into the CEM's mission of public service. The recommended approach must therefore not be "financial" when dealing with this activity – while not incurring a deficit, of course – but must concentrate on a "strategic" aspect, particularly in terms of "positioning" and "growth of coverage". In fact, CEM's positioning as a major operator in the collection of rural savings would allow the state to recognize that it is of public utility, thereby justifying different treatment at all levels compared with common legislation. The growth in its savings coverage would increase the value of the CEM in the current privatization process and improve its image and institutional position.

Partnership with the Post Office

The termination of the relationship between the CEM and the Post Office in 2001 remains very detrimental to savers who are still attached to it. The partnership with the Post Office is a major strategic area for the CEM, and we recommend resuming it. The conditions that have been proposed are beneficial for the CEM. The following points must be reevaluated:

- It is preferable to have a longer contract, five years for example.
- The CEM can define joint intervention zones and give the Post Office three or four profitable towns out of the 40 that are still potentially of interest.
- The sanctions/penalties in the commercial contract must be strengthened to protect against unilateral decisions.
- A partnership should be suggested for the most important post offices (around 100), not including the nine or ten cities where CEM plans to set up future branches, for the next three years.
- A strong joint public awareness campaign (CEM and Post Office) must be conducted to restore the confidence of depositors in the areas covered by the partnership.

Establishing representatives for the CEM

This consists of developing a network of representatives in various villages by using either small private-sector structures or public or para-public organizations. In our opinion, such a system involves great difficulties due to the transfer of responsibility to entities outside of the CEM, which cannot necessarily be controlled. The mechanism can be used only with partners that have no motivation where profit is concerned, such as:

- Health centers or schools – but there is little synergy with the activities of CEM, and it will therefore be difficult to establish procedures.
- Development projects – but they are generally located more centrally and do not reach the targets.

In other words, implementing this system is feasible but difficult, with high risks and low profitability. Therefore, we do not recommend it at present.

Partnerships in Fianarantsoa

The CEM can develop a “mobile teller” to become more familiar with the rural market. A mobile teller is a four-wheel-drive car set up for mobile collection operations which would operate in villages that are accessible from its branch. The following stages are involved in setting up such an operation:

1. Conducting a study on the type of public awareness campaign to be conducted in order to avoid making mistakes about the messages to be transmitted.
2. Doing an additional socioeconomic analysis on the actual market potential.
3. If studies confirm that the project can be viable, it will then be possible to set up a two-year pilot project to validate the concepts and the approach.

The investment costs would be on the same order of magnitude as creation of a new branch. One non-negligible problem is the CEM’s limited annual investment capacity.

After it is privatized, the CEM can evaluate the possibility of opening offices or negotiate an agreement with the new owners of the railway in order to open savings accounts for the benefit of railway workers and village residents living in areas along the railway line.

Partnerships in Fort Dauphin

The key strategy is to pursue economies of scale by developing several partnerships simultaneously. This could be done in two stages:

1. Establishing a contractual relationship with existing networks that operate in the rural environment but have a structure in town, particularly:
 - With CARE to open savings accounts for participants in the “Cash for Work” project
 - With large companies like QMM to develop individual savings or retirement savings
2. Afterwards, creating a mobile structure in partnership with larger networks such as GRET to optimize costs. Studies similar to those suggested for Fianarantsoa should be completed.

Partnership with microfinance networks

The partnership with cooperative (mutual) microfinance networks for direct collection of savings in rural areas by the CEM is not possible because there is competition between the two organizations. It is not possible to work with non-mutual MFIs either, because they are not legally entitled to collect savings. Another partnership for the refinancing of microfinance networks may be of interest to the CEM because it would allow it to learn this type of activity. That would require a license issued by CSBF, and current regulations do not favor the granting of such a license to the CEM. The best position is therefore to wait and see, while proactively demonstrating the CEM’s social role until new regulations that are more favorable to it have been issued by the public authorities.

I. CAISSE D'ÉPARGNE DE MADAGASCAR

A. GENERAL PRESENTATION

The mission of the CEM has hitherto been solely to collect savings. It has 18 branches throughout the island, serving some 640,000 savers in late 2001. Its assets were FMG 250 billion at the end of that period. Its bylaws required the CEM to deposit its funds with the Public Treasury, and the interest rate was set by the Treasury. CEM has had a positive result and shows some profitability.

As it plans to become a limited liability company (SA, *société anonyme*) and operate in the financial sector, CEM will have to comply with the requirements for operation specified by CSBF. It is not yet formally categorized in the Banking Law, but like associations such as SIPEM, EAM, etc., it is among the non-mutual microfinance institutions.

CEM provides its services to around 7% of the Malagasy adult population. Parallel to its traditional activity of collecting savings, in 1997 CEM obtained a contract to represent Western Union for the transfer of money.

B. CHARACTERISTICS OF CEM'S CLIENTS

Development of assets

In 2002, the CEM's assets were FMG 260 billion. It was invested in treasury bonds (BTAs) bearing interest over an average of 12 weeks at an average rate of about 11.5%. The amount of savings collected has considerably increased over the past few years, with 25% growth in the number of branches located in towns in 2000 (more than FMG 50 billion in absolute terms) and 20% in 2001 (more than FMG 50 billion in absolute terms). There was stagnation in 2002 due to the crisis.

Average assets are approximately FMG 250,000 per saver. It should be noted that 80% of clients have assets of less than FMG 250,000, and some 100 clients have more than FMG 100 million. When opening an account:

- 50% of clients deposit between FMG 50,000 and FMG 250,000
- 25% invest between FMG 25,000 and FMG 50,000
- 25% deposit more than FMG 250,000

It should be noted that 90% of the clients covered by those figures are urban. Table I.1 shows typical clients. Rural savings represent only 10% of clients.

Table I.1 Types of clients	
Profession	% of clients
Pupils and students	31.0%
No profession (housewives, informal sector)	21.0%
Merchants, carriers, craftsmen, etc.	13.0%
Private salaried employees	13.0%
Civil servants	10.0%
Farmers, livestock raisers	6.0%
Liberal professions (lawyer, physician, etc.)	4.0%
Associations	1.0%
Industries	1.0%
	100%

Distribution of CEM branches and Post Office branches

Before 2001, 152 Paoma (Madagascar Post Office) branches represented CEM in the most distant locations, representing 110,000 savers or 17% of its clients. However, that cooperative effort ended in July 2001.

In 2002, 555,000 clients with FMG 245 billion are in CEM branches, while 80,000 clients or 14% with FMG 15 billion are still floating with the Post Office branches. It can be concluded that there is coverage by the new branches and that some clients affiliated with the Post Office have left. However, a good portion of them remain faithful to the CEM, but no longer have access to its services.

General assessment by clients

Clients mention the following main reasons for saving:

- Possibility of carrying out a project
- Security/retirement
- The possibility of saving money

Additional reasons that lead clients to come to CEM are the security of their investment, the lack of fees for holding an account, and the interest offered. Clients would like to increase their savings but are limited by their incomes. Most clients declare that they do not invest outside of the CEM. Those who do have deposits outside of the CEM use banks, mutual institutions, the family (due to simplicity), CCPs, and the informal circuit.

Payments to clients

The CEM has determined a psychological interest rate of 4% per year, which it came up with by experience, as being the acceptable limit for clients. Currently, with its tax exemption, distributions by the CEM represent a yield of about 5.5 %.

Rating of services by CEM

Two advantages are listed when rating CEM's services:

- The financial advantages that are offered (lack of fees, payment of interest), as well as the security of money and the non-liquidity (principle of the 15-day notice period) are favorably viewed in the CEM program
- The existence of the Western Union¹ service has considerably enhanced CEM's image. The activities with this service are increasing exponentially.

The negative ratings concern concepts of service:

- The procedure and formalities to be completed are rather burdensome; in particular, it is impossible to withdraw from a branch other than the branch where the money was deposited
- The amount of time spent waiting at the window is quite annoying
- The interest rate is considered low compared with the inflation rate and rise in the cost of living
- The distance from CEM branches, which are currently located in larger towns.

Reasons for leaving CEM

Some clients leave CEM voluntarily. This is generally a small number, and only 1,000 accounts out of 570,000 depositors (less than 0.2%) left CEM in 2000. The only exception is the Post Office branches, where service was terminated, leading to a relatively high departure rate in 2002, when around 3,000 accounts were closed.

C. OTHER ENVIRONMENTS OF CEM

Competition by banks and insurance companies

Savings products have been created for several months now in those institutions. However, the products of banks and insurance companies are different and do not target the same clients. Rural clients are not at all affected by this category of product. Moreover, the CEM is now developing "retirement savings accounts," which are much more attractive than the bank products, because CEM pays more interest annually on retirement savings and the penalties for early withdrawal are lower. The CEM is currently trying to institutionalize its product and already has a contract with TELMA. Competition with traditional savings at the CEM is therefore very unlikely in the rural sector.

¹ Western Union: a company that in 1997 signed a money transfer service agreement with CEM

³ This is a special account opened with the Public Treasury which earns interest at a rate determined by the state. Generally, that rate is several points lower than the rate for treasury bonds.

II. ANALYSIS OF CEM'S SITUATION

A. STRENGTHS OF THE CEM

The CEM is currently the leader in Madagascar with 43% of formal voluntary savings. That dominant position is due to the following:

- The savings book, which is accessible to practically all classes of the population. (The amount to open a savings account is FMG 100, in order to offer a public service, while there is no upper limit).
- Presence throughout most of the territory with its 18 branches
- Confidence of savers, who know that their savings are invested in treasury bonds
- Interest, which is tax free due to the current bylaws of the CEM.

Thanks to its dominant position and the absence of serious competition, the CEM has a great deal of leeway in determining the interest rates it pays on savings. The CEM recently introduced another product, a special account with a minimum deposit of FMG 100 million. Although this product directly competes with banks, CEM's competitive advantage is that its interest-bearing deposits are tax exempt.

B. WEAKNESSES

Due to its status as industrial and commercial public enterprise (EPIC), CEM has been organized to some extent more like a public service than like a modern company. This has led to several shortcomings:

- The procedural manuals and management method are those of public service
- From its founding until today, the funds collected by the CEM have been invested in public treasury bonds in accordance with its bylaws. Therefore, the CEM has been at a disadvantage in negotiating the rates of interest it pays and could not develop knowledge concerning other types of investment.
- The minimum amount of FMG 100 due to CEM's status as a public service causes it to lose money on its smallest deposits
- The number of client services that the CEM can offer is limited due to the legislation that has managed it

There are several concerns with regard to management of its commercial networks:

- Due to the recent increase in the number of its branches, the proper balance between centralization and decentralization of strategic and operational tasks must still be found.
- The Madagascar Post Office (Paoma) terminated its cooperative venture with the CEM in July 2001. The 152 Paoma branches therefore no longer provide CEM services. The

customers concerned, approximately 14% of the total number (17% minus 3% who have left) have had to be channeled to the closest branches.

C. OPPORTUNITIES

The conversion of the CEM into a limited liability company has also brought with it the following opportunities:

- The possibility of diversifying CEM's investment portfolio. The current financial sector is managed according to a market model and offers more opportunity.
- The introduction of new, private shareholders will contribute to development of the CEM in the following areas: skill in the area of lending, better understanding of the area of investment, new ideas and technologies, and improvement in governance by the company's administration.

D. RISKS

With regard to the savings books, the conversion of the CEM into an SA could lead to loss of the tax exemption on the interest paid. CEM could negotiate with the authorities concerned in order to retain this privilege:

- At least while the state remains a majority shareholder in the company
- As long as the majority of collected savings is invested in treasury bonds, although this is practically the same case as for banks
- If CEM sets itself the objective of increasing the collection of savings throughout the territory, particularly rural savings.

With regard to development of its commercial network, the creation of new branches will quickly reach a limit, given the scale of the investments to be made. CEM's capacity for geographic coverage will therefore be rather limited.

III. CEM STRATEGY

A. STATUS OF CEM

A law converted the CEM into a limited liability company (SA) in 2001. The implementing decree has just been approved by the government. We were unable to obtain the text, but the CEM has specified the principles that were adopted:

- CEM SA will take over the activities of CEM EPIC.
- The share capital would be the net assets of CEM EPIC.
- The state will divest itself of ownership and ultimately hold only 36%.

It can be seen that:

- The net assets of the CEM are valued at between FMG 10 and FMG 12 billion. They are therefore sufficient to meet the conditions of the Banking Law for applying for any type of license.
- There is not yet a schedule for divestment by the state.

B. GENERAL POLICY OF CEM

The policy of divestment by the state has been accepted, but the public authorities want to keep a major role by retaining 36% of the capital. The company is now entering a transitional phase, and its final orientation will depend on the administrators who are appointed in the future.

While awaiting its new managers, the current management has used the following strategies since 2001:

- Consolidation of what has been achieved by a sustained increase in urban savings and possibly rural savings
- Preparation of CEM resources for anticipated future activities, particularly the possibility of making loans.

The adopted approach consists of:

- Having good financial profitability of current and future operations, doing so as a financial institution managed according to the standards of a prudent businessman
- Not losing sight of the role of public and social service for “disadvantaged” savers.

CEM is therefore seeking optimization rather than maximization of profits to satisfy those two objectives, which initially appear to be contradictory.

C. CEM'S INVESTMENT POLICY

So far, collected savings have been entirely invested with the Treasury according to the CEM's bylaws. By becoming an SA, the CEM will be able to diversify its investments.

The traditional bank loan is *for the moment* outside of the CEM's scope, given the considerable investments to be made in personnel, time and money. That activity can be envisaged in the longer term as a function of the wishes and investment abilities of future shareholders.

Microcredit best fits its profile. However, by directly making microloans, the CEM would introduce a redundancy factor in a sector that is already overburdened. There are already many operators in that market, which is constantly growing with the encouragement of donors who finance infrastructure and know-how.

The obvious short-term investment strategies will therefore be:

- Deposits in *Compte de Dépôt et Consignation* (CDC) accounts³ and on the financial market (BTA treasury bonds, banks, etc.)
- Lending as a wholesaler for microfinance. This activity would require an application for a license from CSBF. CEM is currently preparing its resources to upgrade in this sector.

However, current legislation is not favorable for the CEM to obtain a license that suits its mission and objectives because:

- Its current situation is considered to be transitional, and it lacks the decision-making chain that would enable it to apply for a bank license.
- Licensing as a specialized financial institution is available to it if it agrees not to hold savings, which is not possible.

D. SAVINGS PRODUCTS

For the moment, CEM uses three main products:

- 1) Traditional passbook deposits
- 2) Time deposits
- 3) Retirement savings, which currently target institutional clients.

E. COLLECTION OF SAVINGS

CEM currently uses two separate approaches to collecting savings:

- Geographic expansion that promotes the creation of new branches for urban savings
- Development of partnerships in more distant locations, which targets suburban and rural savings.

F. CREATION OF NEW BRANCHES

Geographic targets

Some 50 towns in Madagascar would potentially be profitable for creation of a CEM branch. Branches in 24 of those 50 towns can easily be operated due to easy communication, sufficient security, etc. CEM could not create more than four of those branches annually due to its limited financing capabilities.

Investment per branch

The creation of each branch would require the following:

- From FMG 200 to FMG 250 million in investments for improvements, security, furnishings, computers, communication, and launching of the branch
- Approximately FMG 20 million per month in structural expenses: personnel, security, transfer of funds, etc.

Selection criteria

The criteria for selection of the towns are:

- The actual existence of a client base to achieve the break-even point (20,000 clients and more)
- Coverage of at least 50% of anticipated external expenses by financial profits generated as of the first year of operation
- Potential for development which is directly verified on the spot
- Possible support for satisfactory development of relations with Western Union.

Conclusion

It therefore clearly appears that the financial profitability of each new branch is CEM's key strategy. This method can obviously not be applied directly to rural savings, because profitability is not as significant.

G. DEVELOPMENT OF PARTNERSHIPS

The creation of branches is a priority strategy for development of the CEM. However, it will be beneficial to create "partnerships":

- In regions where the Post Office (Paoma) was active, where it is vital to maintain the clients who were registered in those offices
- To collect rural savings

In the view of CEM, partnerships could be envisaged with the following structures:

- Existing local organizations (associations, company branches, networks of groups, etc.)
- That are properly established in the region
- With clear bylaws and transparent management
- Possibly with the ability to subsidize cash advances in emergencies
- Having offices that are regularly open

- And whose activities do not compete with services offered by the CEM.

H. CONCLUSION FOR THE POSITIONING OF THE CEM

The CEM will be privatized, but it obviously has a public and social role to play to provide services to the largest number of people. The management's policy of consolidating what it has achieved is the best approach to successfully progressing through this transitional phase.

In that framework, the CEM could therefore:

- Develop its urban network of branches in order to improve profitability
- Extend its network of partnerships to attract rural savings, for strategic reasons.

In fact:

- In terms of positioning, attracting rural savings would enable the state to recognize that the CEM is of public utility, which would make it possible to justify different treatment at all levels compared with common legislation
- The increase in the coverage of its collections would provide several comparative advantages:
 - This would increase the value of CEM in the current privatization process
 - It would offer a genuine service to a population group that has always been disadvantaged in terms of financial support. This service, which is favorably viewed by the population and communicated by word of mouth, can only improve its image and improve its institutional position on the national scene.

The CEM should provide loans or refinancing to supplement its financial services and benefit the largest number of people. That activity requires a license from CSBF. However, current legislation is not favorable to the CEM for obtaining a license that suits its mission and what it wishes to do for the reasons mentioned above. With regard to licensing, the best position for the CEM is therefore to ask CSBF for new regulations that are more favorable to it to be issued by the public authorities. That is particularly true since amendments to laws in the financial sector are being prepared, according to some of the people interviewed.

IV. CEM AND RURAL SAVINGS

In 2002, 75% of Madagascar's citizens lived in rural regions. The vast majority work on the land and 85% of people in rural areas live below the poverty threshold. Education levels are low, health coverage is poor, and security poses a serious problem, particularly in the countryside.

A. RURAL SAVINGS

Low incomes means that formal saving is very rare. The population does not have a culture of formal saving – in order to develop their activities – but rather a spirit of saving for a rainy day. Therefore, two aspects can be observed:

- 1) A very strong tendency to invest surplus money in real estate, such as land or a house, in fact, these acquisitions are considered more viable than other forms of investment. Oral tradition and practice also perpetuate this aspect.
- 2) Security of survival during the non-productive period is fundamental for the poor. Savings in the form of crops are very important, because they also allow speculation, a mechanism that has been well mastered because economic systems in this region are not very diverse, which makes them easy to predict. During the high season, surplus crops beyond what is strictly necessary for current expenditures are saved for speculation. During the low season, the surplus is sold to meet current needs.

It therefore appears that savings as monetary deposits are not very popular, and not really part of Malagasy culture. It is therefore vital to do a lot of public awareness work. The dissemination of this culture of formal savings is also hampered by the following:

- Low levels of education
- Very short-term visibility of income
- Lack of diversity and opportunities for seeking income

However, it will be seen that some practices close to towns are beginning to change due to:

- The influence of a new lifestyle
- Increased awareness of examples of success
- Openness provided by radio information

Programs to support development in rural areas promote the diversification of activities and the development of microfinance networks. Positive examples have been experienced, which will influence practices.

From another viewpoint, problems of establishing confidence have been highlighted:

- There are certain fears when faced with paper as a medium, particularly when it is presented as a receipt: a piece of paper has little value in the eyes of the poor. One exception is the savings passbook, which is more substantial and looks a lot like a title to land.
- Liquidity and immediate availability of their assets is very important (visibility on demand with the least possible bother) in order to be able to cover urgent expenses. That is because families do relatively little planning.

For example, these problems have led to a low level of bank deposits in regions with high monetary flows, such as Tsiroanomandidy.

B. SOME KEY PARAMETERS FOR ACCESS TO RURAL SAVINGS

Many development projects use different strategies depending on the specific nature of each region. However, the following are the common parameters:

- It is necessary to show the efficiency and advantages of saving by example. A counterpart loan is often used by microfinance institutions to accelerate results.
- Public awareness and communication are fundamental.
- The use of grassroots structures that exist in each village facilitates access. Those channels, which are very informal and very fungible, are particularly necessary in the beginning to provide high degree of penetration.
- The security of savings must be palpably demonstrated. A visual demonstration is more effective, for example.

C. PARAMETERS FOR ACCESS BY THE CEM

It can therefore be concluded for the CEM that investing in public awareness and training is just as important as tangible investments. A vision and a will to achieve long-term establishment are necessary.

The following parts of the rural sector can be targeted immediately:

- The immediate surroundings of larger towns to facilitate access and reduce costs. The problems of security are less crucial.
- Along the principal roads, where it is easier to remove amounts collected and the cash income of these poor.
- Poor with multiple activities who have excess cash and have already shown some success. These are essentially village elders, commercial intermediaries, carriers, etc. The people in liberal professions can also be included.

V. CRITERIA FOR PARTNERSHIP

The criteria for partnerships are measured indicators that will be analyzed to evaluate the mutual benefit of developing each relationship. They will also be used to compare the different partnerships and distinguish their respective advantages.

In methodological terms, the sections for each criteria will be evaluated objectively on the basis of observations or documentation according to the outline below and presented in the form of a table in order to have formats for comparison that facilitate analysis.

Specifications of criteria

Criteria for potential

- Unsatisfied demand for savings services: This evaluates both the number of savers and the average volume of potential savings that are expected, not including collection by other organizations such as microfinance institutions. In our case, access to rural savings is the priority to be evaluated.
- Coverage by the potential partner: This specifies the regions with cultural differences to be taken into account in the rural sector. A description of the extent of the network, available infrastructures and security aspects is also necessary.
- Geographic location: This makes it possible to evaluate the potential existence of overlaps or synergies with existing CEM branches in the zone of activities and the level of effort required to establish the partnership. The possibilities of access and facilitation of the establishment of management procedures for savings passbooks, particularly with regard to communication and transfers, will be taken into account.

CEM criteria

The follow aspects must also be added to the basic CEM criteria described in the section on “CEM strategy” in this document:

- CEM's ability to maintain control of its operations: This concerns both legal aspects and operational aspects. Possibilities for transferring responsibilities in the area of managing the savings book, such as collection of savings, withdrawal, recording interest, etc. will be taken into account.
- Permanence of the relationship: CEM is looking for a sustainable relationship that will not be influenced by social or political vagaries.
- Maintaining the CEM's reputation
- The existence of synergies between the professions: The possibility of having a partner cannibalize CEM's profession is not acceptable. The synergies being sought, both technical and organizational or institutional, must help to improve the brand image of each party.

- The related costs: The balance between the risks and responsibilities of each party will be evaluated in relation to the costs incurred on both sides.

Criteria for the partner

- The partner's experience: It should be an existing organization with clear bylaws and that is well established in the region.
- Transparency of management: The procedures and organizations of the entity must allow transparent management of the collected savings: possibility of audit, separate accounts, possibility of assigning responsibility, etc.
- Good organizational capacity and possibility of providing security for funds
- Provision of standard service: The partner must offer practically the same possibilities for service as a CEM branch, such as opening during normal office hours, availability of employees for planned activities, etc.
- No competition by partners' activities: This means no conflicts of interest with regard to either financial and organizational aspects.
- Similarity of development strategies with regard to the needs of CEM
- Financial vigor of the potential partner, in order to ensure its financial viability and no misappropriation of cash set aside for other purposes.

Criteria for the partnership

- The profitability of the proposed partnership from the economic and financial viewpoint. Any synergy should be analyzed with strategic advantages in the case of average profitability.
- Legal aspects providing security: The possibility of preparing viable legal documents to define and evaluate the partnership. A clarification of fiscal aspects as a function of the bylaws of the partner must be evaluated. Factors that might impair clarification of responsibilities for collected savings in case of failure must be sought.
- Acceptable distribution of roles and responsibilities
- Type of transaction or appropriate products and their volume over time
- A necessary, non-prohibitive investment: This relates both to tangible investments and to investments in establishment and communication.
- The extent to which visions on expansion, culture, and institutional infrastructure are complementary
- Payment for services in light of responsibilities assumed. The financial compensation requested from the CEM must be in line with tasks and the advances of funds made by the partner
- Conditions and possible requirements to be fulfilled or negotiated.

VI. PARTNERSHIP WITH THE POST OFFICE

A. HISTORY

History of the relationship between the CEM and the Post Office

The Post Office and the CEM were in the same Ministry before 1995, the year that the CEM became an EPIC pursuant to a law. Until 2001, CEM used the Post Office network as a point of access to its customers and paid about FMG 1 billion in interest every year. There was no contract between the two parties. The Post Office terminated the relationship in 2001. In September 2002, contacts were resumed to discuss a possible resumption of the partnership.

CEM's clients in post offices

In 2001, clients with access to post offices had FMG 19 billion in savings. In 2003, this was only FMG 14 billion due to recruitment by some branches and customers' voluntary departure.

The post offices essentially cover smaller towns. Clients are usually urban, and to a lesser extent rural, particularly in peripheral zones. In fact, there are 140 towns with post offices having a population of 20,000 to 180,000 people. The penetration rate is around 15%. Assets per post office ranges from FMG 1.2 million to FMG 800 million.

Situation of the Post Office partner

Managed by a specific law (Law 93-001), the Post Office has an autonomous budget and a supervising ministry. Its board of directors is appointed by decree. The director general is nominated by the board of directors and appointed by decree. Post Office personnel are appointed directly by the director general. The staff is 60% civil servants and 40% private employees. There are 220 post offices throughout Madagascar, essentially in cities (large, medium-sized, and small), and postal agencies in local areas. The Post Office is responsible for its own operations (investment, functioning, etc.) and has 2,500 employees.

The situation of the Post Office can be described as follows:

- The Post Office had serious cash flow problems during the crisis.
- Payment of salaries to civil servants was recently moved from CCP postal checking accounts to short-term notes pursuant to a government decision.
- Many customers complain to the Post Office that they are unable to access their savings with the CEM
- The Post Office (35 offices) is currently used by Caisse National de Prévoyance Sociale (CNAPS) to pay retirement pensions.

Current strategy of the Post Office

The Post Office is currently developing seven new products:

- The Post Office would like to grant microcredits with CCPs. The bylaws are being prepared by a consulting firm. The government has already given its consent.
- The Post Office would like to resume its cooperation with the CEM. If it does not, it is interested in developing its own postal savings system in 100 offices in 2004. It is seeking profitability with the greatest possible coverage. Its staff already has the knowledge thanks to their experience with the CEM.
- The Post Office set up international payment transfers in 2003.
- The Post Office has set up express money orders.
- Cyber-mail is ultimately being established.
- Postal faxes are operational.
- Express delivery is already operational.

A computerization plan covers some 30 offices. All of these programs will be paid for by the Post Office's own funds.

B. POSSIBLE PARTNERSHIP OF THE CEM AND THE POST OFFICE

Discussion on cooperation

Initial negotiations on resumption were conducted in September 2002 on the following basis:

- Commercial cooperation over two years on the basis of 100 offices (out of 220). A commercial contract will be signed.
- The Post Office undertakes to do the following:
 - Make a down payment (cash advance) of FMG 500 million to the CEM for immediate payments
 - Handle transmission, collection, partial reimbursement, accounting and comply with deadlines for procedures
 - Establish procedures (accounting, etc.), train its staff, and invest in computerizing the main offices (about 30 of them).
- The CEM would:
 - Pay the Post Office 2% of NEW savings that are collected. CEM has advanced 0.8% on the total savings managed by the sites. The partnership before 2001 was on this basis.
 - Change the form and processing of the current savings book which (according to the Post Office) is easy to falsify, because there is no longer a savings stamp
- Commercial promotion will be in partnership between the two entities

The Post Office would like an exclusive contract for the partnership regions. The Post Office finds the franchise form to provide little security.

C. ANALYSIS**Geographic coverage by the CEM of the Post Office network**

In absolute terms, the pace of creating CEM branches is three branches per year (2003 and 2004). CEM cannot cover the 152 post offices very soon, particularly since it does not have the financial means to do so.

Strategic sharing of the coverage zones

In such a partnership, reciprocal benefits and concessions by both sides must be sought. Therefore a balance must be struck between sharing:

- Very profitable areas where there are both CEM branches and post offices
- Zones that are hard to access or have difficult communication (for example in Maintirano) and where investment threatens to be less worthwhile.

Compensation demanded by the Post Office

The CEM pays about 5% interest on its savings, which represents the rate for investment in BTA treasury bonds minus the distributed remuneration. The cost demanded by the Post Office of 2%, which is still negotiable, is not expensive compared with the strategic added value of this partnership. It will be seen that the difference between the interest paid by the CEM and the costs demanded by the Post Office provides a margin of 3%, which is very reasonable in terms of profitability.

Analysis according to partnership criteria

	Strengths, Opportunities	Weaknesses, Risks
<i>Demand by savings clients</i>	Restoration of client confidence. Stabilization of 14% of clients. Also, access to these clients via CEM is impossible in the short term. Possibility of increasing savings in medium-sized towns and strengthening the market.	Increased association with the Post Office as the exclusive place for savings. CEM runs the risk of falling behind if communication does not go in the right direction.
<i>Coverage</i>	Coverage is national, and rural zones on the outskirts of towns can be targeted.	Remote rural zones are not affected.
<i>Control of operations</i>	Establishing joint procedures does not pose a problem. CEM can handle this control.	For some remote post offices, problems with the speed of transferring information threaten to become chronic, as they were in the past. The time limit for transmission of data should be specified in the contract.

Marketing	It is in CEM's interest to do its own communication to promote savings by highlighting its brand name even if the branch is at the post office. The CEM logo must be displayed everywhere.	The Post Office may handle promotion in a way CEM does not agree with. To resume the partnership, major efforts must be made to increase the awareness of people who are attached to post offices to avoid departures and problems of trust leading to mass withdrawals.
Permanence of the relationship	A commercial contract with stiff penalties would be sufficient to stabilize relations.	The Post Office is subject to its supervising ministry, and there is a risk of unilateral termination of the relationship.
Reputation	The Post Office has a good reputation in suburban zones. It is a top-ranking administrative center in small towns.	The image of the Post Office and the CEM will be confused in the minds of savers. The Post Office has a poor image in some areas, which could impact the CEM.
Synergies of the professions	The Post Office and CEM come from the same ministry and have always worked in complementary fashion.	
Partner's experience and know-how	Establishment of the partnership will be facilitated since the Post Office previously worked with the CEM.	With CEM's experience over several years, the Post Office can prepare technically to develop its savings and be a competitor in these regions.
Transparency of management		The commercial contract must extend to include the possibility of crossed audits of joint activities.
Organizational capacity	The Post Office already has a functional structure in place.	Some centers in the postal network must be computerized for the first time.
Security for funds	Security is provided by the location right in post offices.	Too much money cannot be kept on hand because in most cases the towns that have post offices do not have a bank. That means that very strict procedures for transfers are required, but apparently the Post Office is prepared to do this.

Standardization of the service	Post offices are open every regular business day. Therefore, there is no access problem.	
Similarity of strategies, competition between the partners	A new Post Office product will not recruit savers who are already with the CEM. The risk is where new savers are concerned.	If the partnership is not entered into, there is a risk that the Post Office will create its own product. A recruitment rate of 50% (simple hypothesis) of current savings in towns without a CEM branch cannot be excluded. Competition in profitable towns threatens to be harmful for new savers.
Financial health	The Post Office is permanent.	However, each post office is not permanent since it could be closed by administrators. Therefore, the contract should include an article on this issue.
Legal matters	A commercial contract provides security because the Post Office is a legal entity. The limitation in the number of years for the contract is binding on both parties.	Concern about reliving the breakup of 2001 – due to a certain political dependency. If there is a future difference of opinion, CEM will not have many ways to make the other party fulfill its obligations.
Partnership zone	CEM can supplement its current networks with networks of the Post Office while excluding its branch zones from the partnership.	CEM should probably leave the Post Office two or three profitable towns (no branch created) as a counterpart (supporting number) for development of strategic coverage zones whose profitability is average. Moreover, CEM will not have the possibility of creating branches in those zones in the medium term.
Type of transaction or products	The Post Office is prepared to advance payments for disbursement of withdrawals. This is very important to ensure good-quality service to meet savers' needs.	

<i>Investment, profitability, complementary nature</i>	There are no investments in real estate. The Post Office will take charge of structural investments (furniture, computers, etc.), while the CEM will cover only operating investments (passbooks, etc.).	Will the Post Office really invest (a great deal) to develop the service for the benefit of CEM? (Examples: computers, sending express mail, etc.) Or will it sign a contract and then offer minimum services? CEM runs the risk of not controlling procedural performance by the mechanisms in such a case.
<i>Payment for services</i>	CEM benefits because its net income on savings is approximately 5%. A refund of 1% to 2% on new savings is no problem, particularly since this does not concern existing savings. The service provided adds a great deal of value compared with the payment.	The Post Office will soon want to raise this rate because it will realize that the payment is very low.
<i>Conditions and requirements</i>		The Post Office requires an exclusive contract in partnership areas. Issues occur in towns where CEM branches already exist. Negotiations should be held in that case.

Summary

The actual ability of the Post Office to compete with the CEM is very low. The Post Office is a partner that cannot disappear from one day to the next. It is permanent and wants to invest in the partnership. The CEM cannot recover its lost clients on its own, because its ability to create new branches is relatively weak. The CEM-Post Office partnership makes it possible to stabilize 14% of its clients, and the requested cost of cooperation is insignificant compared with the strategic added value. However, a major joint campaign to increase awareness must be conducted to gain the trust of depositors and avoid lost clients and massive withdrawals.

CEM could:

- Have the initiative in areas covered by the partnership
- Have control of the know-how, particularly concerning IT
- Have control of communication in the process in order to avoid tempting its partner to compete.

The exclusive aspect of the partnership must be negotiated. Reasoning in purely financial terms is a strategic error, and as the partnership now appears, CEM would have every advantage in carrying it out. The risk of termination of a commercial contract is real for the CEM, because the Post Office is still subject to the ministry, but if the penalties/sanctions are convincing, a certain stability could be achieved which is quite sufficient to implement the strategy.

D. ATTRACTING RURAL SAVINGS

Post offices are currently established in cities, and most of the clients are urban. The peripheral rural area can be reached during marketing tours that the CEM should make if the partnership is resumed. However, these would be limited. A strategy for penetration of rural zones over the long term with this partnership is difficult in the current context, particularly because the Post Office does not yet have the desire to do so.

E. CONCLUSION ON THE PARTNERSHIP OF CEM AND THE POST OFFICE

The partnership with the Post Office is a major strategic area for CEM. The conditions that have been proposed are beneficial for it. The only points to be reviewed are:

- It is preferable to have a longer contract, for example for five years.
- CEM can define joint intervention zones and give the Post Office three or four profitable cities out the 40 that are still potentially of interest.
- Sanctions/penalties in the commercial contract should be strengthened to protect against unilateral decisions.
- A partnership with the largest post offices should be suggested (approximately 100 of them) minus the nine or ten towns where future CEM branches will be set up in the next three years.
- A major public awareness campaign must be jointly conducted to maintain the trust of depositors.

VII. FRANCHISE AND REPRESENTATION

The partnership with schools, health centers, and the railway all fit into the framework of the representation study below. Representation consists of giving authority to an entity that exists in the field to partially represent the CEM in the tasks involved in collecting savings. The geographic coverage to be envisaged is national. This analysis explores the possibility of developing franchise offices or representations close to the rural environment.

A. FRANCHISE

A franchise assumes that there is a joint business operation that the franchisee can use to earn his margin on activities. The franchise can develop its network by motivating the franchisee to make a profit.

The partnership through a franchise in rural areas

The franchise would be the sale of CEM's image to collect savings. This concept is hard to understand in the remote countryside. In contrast, potential franchisees in villages with a direct link to the rural environment are:

- Village elders
- Service operators
- Commercial operators

Within that framework, the CEM must develop a highly-simplified procedure and product with a detailed specification for functioning of the savings book, which in our opinion must be a time deposit book. A specific mechanism for starting the activities of each franchisee must be developed, and details for provision of services will be set down in a contract in due form. The cost of entry can be symbolic, and expenses can be spread out over three or four years.

Advantages

The main advantages relate to good development of the CEM's image. In practical terms, creating an official office increases confidence among the poor. At the level of the franchisees, the image of the CEM will enhance all of their activities.

Disadvantages

The concept is probably difficult to understand for potential franchisees in the villages. In this very pragmatic environment, it will be difficult to argue in favor of selling an image, which is an inappropriate concept for their type of reasoning.

Although people in the area trust CEM's logo, this does not mean that they will save. In fact, the franchise does not require the franchisee to promote saving, which will require the CEM to go into the field to make people aware of the need to save.

Turnover is unrelated to the franchisee's performance because his compensation is only a fraction of the interest paid on the savings collected, which will not encourage motivation to participate in the network. Since the cost of entry is high, the profitability rate of the operation is very limited, probably less than the rate of inflation.

The cost of developing a franchise is considerable and could far exceed the cost of setting up a branch in an average town. Moreover, the return on the investment will take a long time. Management of a franchise is a profession, and it is not certain that CEM currently has the necessary resources to implement this. The profitability of this type of activity runs the risk of being quite low.

Conclusion

It will be difficult to implement such a concept to develop a savings network in the rural areas.

B. REPRESENTATION

A representation is very different from the concept of a franchise and is much more oriented to a transfer of function. In this case, the representative does not seek a profit based on an activity and instead is paid on the basis of the work performed. Operational tasks to be carried out and monitoring can be more specific and less subject to interpretation.

In that framework, the CEM would try to achieve national coverage in the medium term. Access to rural savings will be achieved through lightweight structures established in the villages. The CEM can conduct pilot tests in certain zones that are not far from its branches.

Mechanism

The CEM is developing a standard mechanism for a turnkey representation. National communication to determine interest has been completed, and each establishment will be in accordance with the following principles, depending on the profile of the applicants:

- Basic investment, establishment, and training are provided by CEM. A launch event is held.
- Local promotion and access to savings are provided by the representative. The objectives of what must be achieved are specified in the contract, with a well-defined intervention zone.
- The cost of key items (transfers, security, etc.) is prefunded by the CEM based on a deposit, but small expenditures are advanced by the representatives, followed by periodic reimbursement.

Potential representative

The potential representatives could be:

Representatives	Evaluation
Well-known apolitical individuals or small individual enterprises	There are serious risks of misappropriation by individuals. If the person finds himself in conflict, there is a serious risk for the reputation of the CEM.
Representations of large private companies	These are companies established in production zones. But the mixture of interests and the strategic blend threaten to cause problems.
Representations of development projects and international organizations	Microfinance institutions are not interested because they already collect savings. Other projects are interested but are not well established in rural areas.
Grassroots structures such as health centers, schools, etc.	Structures exist, but discussions would have to be held directly with the ministries concerned. The centers are of interest only if there is an extra support structure that can be trusted, such as projects of international donors.
The railway	Every train station is an interesting focal point with a permanent structure.
Transportation groups	They have access to distant areas but are poorly structured and therefore there are risks similar to those for individual companies.

Development by CEM

CEM must develop the following:

- Procedures for the use of savings books, transfers of funds, security rules, monitoring details, a simple accounting mechanism, and the format for activity reports
- Strengthening of the audit department to keep track of these offices
- Standard training sessions for the grassroots, and custom modules for specific needs
- A standard outline for establishment showing the physical organization of the representation with standard investments to be made: furniture, equipment, etc.
- A standard visual line with a logo and a colored chain to show immediately that one is in an area reserved for CEM
- Very simple calculation software to quickly evaluate the structure for establishment and profitability of a representation office as a function of parameters in the field. This computer program will include the key parameters (number of people, location, and distance) of an entity that is a candidate for representation, and it must provide the main financial aspects to be established: costs, remuneration, investment, likely profitability, etc.

The investment costs for such development would be about FMG 100 million.

Establishment of the representation office

The following must be done at the time of establishment:

- Investigation of the ethics of the future representative

- Signing of a contract and possibly an offer of a guarantee by the future representative
- Group training may be offered in Antananarivo to facilitate matters
- Investment in the office and installation of transfer and security systems
- Holding a launch event and an appeal to people to save. Continued communication for a certain period.

Characteristics of the representation

The main characteristics of an office can be the following:

- Located a maximum of 50 km from a CEM branch
- Regular road link
- Establishment in villages with a population of less than 5,000 but that can target a zone that includes a minimum of 10,000 people. There is a potential of approximately 250 small offices that do not overlap with CEM and the Post Office throughout Madagascar, of which probably half will be profitable to some degree.

A penetration rate of 8% can be envisaged at the outset as a function of the importance of the representative in the region. In some existing mutual networks, if an installation is accompanied by strong communication, the penetration rate can be as high as 10% during the first year. An average deposit of FMG 100,000 in the targeted area would be a low estimate.

Projection on representation offices

The critical threshold to amortize the initial investment of FMG 100 million over four years would be :

- To open 15 representations
- With 800 savers per office and an average deposit of FMG 100,000 per saver
- Providing compensation of FMG 2 million per year for the representative. That is quite significant because it is the equivalent of the paddy produced by 1 hectare of land.

It is obvious that the assets in this projection represent only FMG 1 billion, but it provides a certain reputation for the CEM and publicizes the CEM's mission. If the CEM can get 100 representations, which is completely feasible, the volume of assets may reach FMG 7 billion, which is considerable.

Test of such an outline

Some interesting regions such as Manjakandriana or Antsirabe will be of interest, but there are already many microfinance activities in those areas. The region of Moramanga or Fianarantsoa could also be chosen.

Analysis

	Strengths, Opportunities	Weaknesses, Risks
<i>Demand</i>	Demand exists and makes it possible to bring service close to needs.	A communication strategy is still needed to explain services to rural groups.
<i>Coverage</i>	Coverage is regional.	There are considerable costs for transport and security.
<i>Place of establishment</i>	In small towns and modest size villages	
<i>Control of operations</i>		Control is difficult because representatives would be very heterogeneous and particularly because they are not yet familiar with the mechanism. There is also the problem of diversion of funds to other uses, which is hard to control.
<i>Permanence of the relationship</i>	With a commercial contract for a two-year period, the relationship is certainly a possibility.	
<i>Reputation</i>	CEM's image as a provider of social services could be improved by expanding its services to the very poor.	CEM's image could be worsened in the case of misappropriation of funds by the representative.
<i>Related costs</i>		Costs of security, transfers, and monitoring would be high.
<i>The partner's experience</i>		None. CEM must provide a lot of training.
<i>Transparency of management</i>		Difficult when the representative is a structure without an internal control system. It would be easy for the representative not to enter operations in the books.
<i>Organizational ability</i>		Low.
<i>Security for funds</i>		Very low for deposits. Transfers depend on each place of establishment.
<i>Standardization of services</i>		There is a major risk that the representation would be closed for long periods (vacations, etc.), particularly since this is a sideline.

Similarity of strategies	Yes to the extent that the representation needs CEM's image, while CEM needs the representative's presence in the field and knowledge of the region.	
Ethics		This is the weak link in this system. It is impossible to avoid the risk of problems, particularly because there can be significant assets in each office.
Financial health		Generally weak
Legal aspects		Compliance with the contract seems difficult to monitor.
Type of transaction or products		Limited solely to the collection of savings. The possibility of disbursing demand withdrawals is very difficult because the representative cannot advance money and may not keep too much cash on hand.
Investment, profitability, complementary nature	The investment by the CEM is relatively low.	Profitability is low due to the small number of savers for each representation.
Payment for services	The representative can be motivated through incentives.	Rather low.

Summary of analyses

On the one hand:

- The mechanism is based on the integrity and reputation of the representative. The relationship of trust is very important.
- It is possible to cover a rather large area.
- CEM is already a professional and manages 18 branches. Supervision of activities should not pose too many problems.

On the other hand:

- The mechanism for transferring responsibilities to persons outside of CEM represents a major risk for savings. The risks of embezzlement are very high.
- Representatives are not yet familiar with the mechanism.
- Monitoring is difficult. The costs of operations will be high.
- The major difficulty of setting up ways to withdrawn funds causes a major vacuum in the system. Nonetheless, it is possible to make withdrawals when the CEM team comes to the area.

C. PARTNERSHIP WITH THE RAILWAY ON THE FIANARANTSOA-MANAKARA LINE

The railway network is being rehabilitated and privatized with the support of a USAID project. It crosses a production zone with major potential for savings. There are scores of train stations, and the train goes through each station four times a week. Profitability would therefore be the same as the outline defined above. One might envision a global agreement with future buyers as soon as privatization has ended.

D. CONCLUSION

The system raises many problems due to the transfer of responsibility to entities outside of the CEM that cannot necessarily be controlled. The mechanism can be used only with partners whose motivations with regard to profit are very low, such as

- Health centers or schools, but there is very little synergy with their activities
- Development projects, but their locations are generally more centralized

In other words, implementation of the mechanism is feasible but difficult, with high risks and low profitability with individual companies.

Nonetheless, an establishment in each train station on a railway line is of great interest and has risks on the same level as those involved with the Post Office. It is up to the CEM to negotiate directly with the buyers of those state companies. The Fianarantsoa-Manakara route should perhaps be favored because there is already a USAID project to support its privatization and rehabilitation, which would facilitate establishment.

VIII. MOBILE TELLER IN FIANARANTSOA

Several problems often occur when collecting rural savings if an organization is not located on site:

- Problems of securely holding money
- Problems of transportation and transfers since distances are great, access is often difficult, and costs are relatively high
- A low volume of deposits and withdrawals, which does not justify permanent assignment of staff.

The test “mobile teller” could provide solutions to those factors.

A. CONCEPT

This involves of using a 4x4 vehicle to collect savings which are located in areas surrounding an established branch. The following would be necessary:

- Once a month, a vehicle known as a mobile teller and two people would be sent to a village located no more than one day’s trip away
- The vehicle would carry a small safe and stop at a given place that is authorized, clearly visible, and easily accessible to the people
- The date would preferably be days with major crowds, such as market day or holidays
- The team would conduct promotional activities and at the same time collect savings according to the same procedure as CEM. They can also conduct withdrawal operations.
- Once they have returned to the branch, the day’s operations are paid in and accounted for.
- Each saver can come to the branch to carry out current operations.

The mechanism would have no fixed partner because the CEM would organize the entire operation. As such, the CEM can maintain control over the system. However, it must work with the towns concerned to get the necessary permits and with security groups in the region to ensure rapid action in case of problems.

B. POSSIBLE REQUEST IN FIANARANTSOA

A visit was made to the region of Ambatovaky to hold discussions with a group of villagers. Of the ten villagers who were questioned, two have deposits at the CEM and one has invested money in a microfinance network with TIAVO. The remainder of the group had no deposits, because according to them the CEM is too far away. Nine villagers out of ten clearly stated that they would save FMG 335,000 per year if a mobile teller came to the village once a month. Part of those savings (nearly 50%) would be used during the planting season to prepare the land, but

seven of the poor confirmed that they would like to deposit the remainder, i.e., FMG 160,500 per year in a longer-term savings account.

C. SETTING UP A MOBILE TELLER FOR FIANARANTSOA

Here is a consistent outline on how to set up a mobile teller centered around Fianarantsoa. The project could be based on a two-year test, but the calculation of profitability would be done over five years of activity.

Zone concerned

The target would be 107 small towns and villages within a 100-km radius around Fianarantsoa. An average of 1,200 people per town would be reached. The zone therefore covers a population of 120,000 people.

Target savings

A penetration rate of 8% is hoped for and could progressively double in three years. The priority target would be farming peasants and people working in the service sector: commerce and transportation. Those people could, at a minimum, save FMG 160,000 per year based on a low assumption.

The mobile teller

It would be a four-wheel-drive pickup with two salaried employees of the CEM accompanied from time to time by an armed soldier to visually convince the poor of the seriousness of this mechanism. A small safe would also demonstrate the security of their deposits. A small portable tent, two folding tables, signs, banners, flags, and a sound system would make it possible to:

- Make the stand more festive by broadcasting country music
- Promote the mechanism by recorded sequences explaining the interest and advantages of deposits
- Explain how to subscribe.

Small items, such as folders concerning production in the area, could also be used periodically to enliven the event.

All of the entertainment material is secured to the rear of the car and can be set up in less than ten minutes by slides and special devices designed for that purpose. The office would remain on the spot for one or two hours, enabling the team to cover two to three villages per day. Therefore, it would be possible to travel to each village at least once a month.

D. FINANCIAL PROJECTION FOR THE MOBILE TELLER IN FIANARANTSOA**Basic parameters**

Some 100 villages with populations of 1,200 people within a 100-km radius of Fianarantsoa would be targeted. The average expected savings is FMG 160,000 in annual deposits with a penetration rate of 8%, which increases annually to 15% in the third year. There is no investment in infrastructure because the system would be based at the Fianarantsoa branch.

Table VIII.1 : Assumption	Number				Unit
Length of test project	5				years
Net compensation to CEM	5%				years
Number of target villages	100				villages
Kilometers per day	200				kms
Number of days	250				days/year
Population by town	1,200				residents per town
Annual savings per resident	160,000				FMG/resident/year
	Year 1	Year 2	Year 3	Year 4	Year 5
Penetration rate (% of population)	8%	10%	15%	15%	15%

Table VIII.2 : Parameters	Number	Unit
Staff salary	1,000,000	per month for 2 people
Rental of central office	0	per month
Central infrastructure (electricity, postage, etc.)	0	per month
Gasoline	4,200	per liter
Fuel consumption per km	7	liters per 100 km
Vehicle upkeep	600,000	per year (insurance, upkeep, etc.)
Insurance for mobile tellers	700,000	per month

Table VIII.3 : Tangible and intangible assets					
Tangible assets	Number	Per unit	Amount (millions)	Depreciation	Depr/year
Vehicle	1	250,000,000	250,000,000		
Office furnishings	-	-	-		
Double-key cash box	1	2,000,000,0	2,000,000		
		Total	252,000,000	10	25 200 000
Intangible assets					
Setup and communications					
Procedure (consultant)	1	2,000,000	2,000,000		
Mission in the towns	100	100,000	10,000,000		
Training - communication	100	200,000	20,000,000		
		Total	32,000,000	5	4,000,000
	TOTAL investment		284,000,000	FMG	29 200 000

Table VIII.4 : Financial projections					
Savings	Year 1	Year 2	Year 3	Year 4	Year 5
Total population	120,000	120,000	120,000	120,000	120,000
Total population served	9,000	12,000	18,000	18,000	18,000
Savings collected	1 440,000,000	1 920,000,000	2,880,000,000	2,880,000,000	2,880,000,000
Annual expenses					
Kilometers traveled annually	50,000	50,000	50,000	50,000	50,000
Staff salary	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Rental of central office	-	-	-	-	-
Central infrastructure (electricity, postage, etc.)	-	-	-	-	-
Fuel consumption per year	14,700,000	14,700,000	14,700,000	14,700,000	14,700,000
Vehicle upkeep	600,000	600,000	600,000	600,000	600,000
Theft insurance	8,400,000	8,400,000	8,400,000	8,400,000	8,400,000
Total	35,700,000	35,700,000	35,700,000	35,700,000	35,700,000
SITUATION					
Investment	284,000,000				
Net return to CEM	72,000,000	96,000,000	144,000,000	144,000,000	144,000,000
Total annual expenditure	35,700,000	35,700,000	35,700,000	35,700,000	35,700,000
Depreciation of investments	29,200,000	29,200,000	29,200,000	29,200,000	29,200,000
Cash balance (FMG)	7,100,000	31,100,000	79,100,000	79,100,000	79,100,000

Results

With an investment of FMG 284 million in equipment, or the equivalent of one agency, the following could be obtained:

- Around FMG 2.9 billion in savings collected, which is a higher amount than several small urban branches of CEM (average FMG 2.2 billion)
- Annual return of FMG 144 million, which is a bit more than the annual average return of small CEM branches (FMG 110 million)
- Coverage of investment (break-even point) after three years (compared with 2.5 years for a CEM branch)

(See tables VIII.1-4)

E. ANALYSIS

	Strengths, Opportunities	Weaknesses, Risks
<i>Demand and coverage</i>	Demand exists, and the fact that CEM travels to get closer to clients is viewed very favorably. Coverage is optimum.	Risk of creating stiff competition with certain microfinance networks. It is preferable to know the intervention zones from the outset.
<i>Place of establishment</i>	The branch in Fianarantsoa solves logistical problems related to management of savings books.	Some roads not passable during the rainy season.
<i>Control of operations</i>	Total control because staff comes from CEM.	
<i>Reputation</i>	Operations with strong communication can only improve CEM's image.	
<i>Organizational ability</i>		Organization is a bit more complicated initially but this shouldn't cause too many problems after establishment.
<i>Security for funds</i>	Theft insurance will be obtained.	A slight risk while traveling, but the system calls for bringing along an armed soldier on randomly-selected trips to discourage thieves and show savers that security is taken seriously.
<i>Legal aspects</i>	No problem because this is a CEM structure.	

Type of transaction or products		Withdrawals could cause problems in case of high demand if the economy is going poorly in the region (cyclone, etc.). But this organization is completely manageable.
Investment, profitability, complementary nature	At the state level, CEM will strongly participate in its mission of collecting public savings, particularly for the weakest groups. This is the choice argument for negotiating the tax exemption.	The investment can be relatively heavy because this is practically the equivalent of opening a branch. Profitability may be of interest in spite of the cost of running the car.
Conditions and requirements		It is vital to hold events and increase public awareness to assuage savers' fears about a new system.

F. CONCLUSION

This plan for a mobile teller is of interest in more than one way:

- The mechanism offers certain profitability
- A large area is covered
- Control and security can be mastered
- It provides the full dimension of a public and social mission for the CEM
- It promotes the improvement of the CEM's brand image with its daily events
- The mobile teller can easily be used in other regions by changing the entertainment cassettes.

However, it will be seen that the system is rather hard to implement and requires a great deal of communication and public awareness work so that savers feel secure in using the mechanism. Before launching such a pilot project, a study on the type of public awareness campaign to be conducted must be carried out to avoid conveying the wrong messages. By the same token, a socioeconomic analysis should be done on the real market potential.

One problem that could have an impact on the image of the mechanism is the impossibility of immediately reimbursing deposits on site; savers would have to travel directly to Fianarantsoa.

Another non-negligible problem is CEM's limited annual investment capacity (around FMG 600 million), which does not favor the mobile teller. CEM has only FMG 600 million to invest annually, which is just enough to invest in creation of three to four new branches per year. That is particularly true since there are more than 25 cities with high profitability rates that it does not yet cover.

IX. PARTNERSHIP IN FORT DAUPHIN

A. ECONOMIC AND SOCIAL REALITIES IN FORT DAUPHIN

Economic activity in this zone concentrates on agriculture (extensive livestock raising, coffee, and fruit), fishing (lobster and shrimp), sisal, mines (graphite and soon limonite and perhaps granite), and tourism (26,000 tourists in 2001).

Fort Dauphin, the main town in Fivondronana, has a population of 46,000, extends over 26 km², and includes 11 fokontany (Malagasy villages). Some of those fokontany, which include the majority of the population, are located in quite rural areas (no water or electricity, roads, railways, etc.). The real urban population represents only 5% of the 46,000 inhabitants or 2,300 people.

The prefecture and its region are characterized by a high degree of poverty in absolute terms and by an important geographic enclave (Route National (RN) 12 is cut off and RN 13 is difficult to pass even in the dry season). Fort Dauphin, the economic force in the sub-region, still has a great deal of attractive power and is a town of immigration for the surrounding populations. The maximum number of salaried jobs in the region is estimated to be 10,000, and self-employment represents the predominant form of professional activity.

With regard to financial infrastructures, the banks established in the town are BOA, Banque BFV-SG, and Banque BNI-CL. CEM also has branch. No financial institution is present in the other localities of the sub-region.

B. SAVINGS AND LENDING IN THE RURAL ENVIRONMENT

There is no formal structure for the collection of savings in rural areas, particularly since the closing of CEM branches that had been set up in partnership with the Post Office network. Several surveys have recently been conducted by Projet de Mise en Valeur du Haut Bassin de la Mandrare (PHBM) in several locations to evaluate the savings market in rural areas, including Haut-Mandrare in the region of Anosy, the region of Ambovombe in Androy, and areas close to and around Fort Dauphin. The main conclusions are:

- This savings is the result of commercial transactions conducted either in public markets or directly with collectors, as is the case for fishing products. These savings are not currently collected and instead are reinvested either in reinforcing and building houses or in cattle herds, particularly in Androy.
- Rural savings exist, but they are less than FMG 165,000 per year on average in the region under study.

For example, it appears that a household in the fokontany of Ambinanibe, a fishing village seven kilometers from Fort Dauphin, earns on average FMG 105,000 per month thanks to the sale of seafood (lobsters and shrimp) to collection companies such as Martin Pecheur. Given the relatively low consumption rate of the population, it is able to save an average of FMG 10,000 per month. Since the town has 520 families, that represents potential annual savings of FMG 62,400,000 per year.

Moreover, public markets represent good opportunities for collecting savings. Therefore, the principle of mobile tellers moving from one public market to the next would enable merchants to directly deposit a portion of their receipts and/or to make withdrawals from mobile tellers periodically, in this case weekly, and provide nearly complete insurance against theft for depositors. The large markets are Amboasary and Ambovombe, located on RN 13, which is passable all year on the Fort Dauphin-Ambovombe section, and could represent the first area for collection of savings in the region.

Very little exists at present in the area of rural lending, but some projects are in their gestation phase, and some should be operational as of the second half of 2003. The paragraphs below define their profiles.

C. THE MICROFINANCE SECTION OF ODDER

Since September 2001, with the financial support of Quit Minerals Madagascar SA (QMM), the *Organisme Diocésain de Développement Rural* (ODDER) has been managing a microfinance activity with the technical support of the institution HAINGONALA. Seven areas located in two *communes* that are directly affected by the QMM mining operation are concerned. The objective of the project is to develop new activities that would generate income based essentially on the population of rural women who also benefit from an educational program of the Microstart type. The activity concerns 120 people currently combined into solidarity groups of four to five persons, which in turn are combined into seven credit associations (CAs) with five solidarity groups each.

FMG 32 million of a credit line of FMG 60 million granted as a subsidy by QMM SA has been distributed so far, or an average loan of FMG 266,666 in four-month lending cycles; the upper limit for loans is FMG 1 million. ODDER is now in its fourth cycle with an exceptional reimbursement rate of 100%; repayments are made weekly.

The mechanism functions as follows: ODDER lends to the CA, which lends to the solidarity groups that distribute the loan among their members. The CA has received appropriate training provided by HAINGONALA. ODDER's lending agents have no ties with lending associations, which is the reason for the reduced staff of four people, including two lending agents. However, interest at the rate of 18%, which is low compared with other microfinance institutions, does not cover the operating costs, which are currently subsidized by the Catholic Relief Service (CRS), backed by QMM.

In addition with the exceptional reimbursements rate, the mechanism has also made it possible to develop savings among borrowers. For example, borrowers have been able to set aside average savings corresponding to 40% of their loans, rising to nearly 75% in some cases, which represents global savings assets of almost FMG 13 million. Those savings could reasonably be collected by CEM, which would be supported by the network of CAs. ODDER has a good image and great credibility among the rural population. It plans to extend the microfinance activity to seven new sites within a 60-km radius around the area, thereby covering all places of establishment of the diocese. However, it is also planned for the CAs to combine within the MAHAMPY institution, which is a non-mutual microfinance association that will take over from ODDER in the area of management, by implementing an appropriate program of technical training and transfer of knowledge.

One of the current handicaps of the project is the relatively low number of clients and the lack of vision and strategy for medium- and long-term development. QMM SA wants to ensure the durability of the institution and hopes to expand the activity to other population categories in its other sites. The forms that its assistance could take are now being analyzed and could be the following:

- Increasing/creating credit lines
- Partial or total assumption of the institution's operating costs
- Incentives for development of loans to micro-enterprises, which would have ties with QMM SA due to the demand created
- Attract other donors to refinancing

D. PROJECTS TO DEVELOP MICROFINANCE ACTIVITIES

The microfinance section of the GRET project

Groupement de Recherche et d'Echanges Technologiques (GRET) is a French NGO with a great deal of experience in supporting development of microfinance activities throughout the world. GRET received a subsidy of €3 million from the European Union for its rural development project in Androy, including €765,000 for the microfinance section. The target population is the rural population in the prefecture of Ambovombe, a total of 234,000 people.

Androy, which is used to gifts rather than loans due to the recurrent drought problem, has historically had serious problems with reimbursement, particularly to the only bank branch in Ambovombe, which had to shut down.

The objective of the project is to lend FMG 50,000 to women for two to three months based on local clan or family solidarity forces. The first loans are to be made starting in June 2003, and GRET is currently finalizing its feasibility and establishment studies.

Development forecasts are projected geographically to cover the prefectures of Tsiombe and Beloha later and in terms of amounts to cover loan units that could ultimately reach FMG 500,000 or more. It appears that within four or five years the project will be autonomous

where refinancing is concerned and can serve up to 10,000 clients with an average loan of FMG 200,000.

The partnership with CEM could occur at two levels and in two stages:

- In the short term, collection of local savings, which could then develop along with GRET's microcredit activity, initially using mobile tellers based on project structures and then perhaps by opening a CEM branch in Ambovombe later
- In the long term, refinancing of the institution to facilitate its development

Municipal projects to combat poverty

To improve the standard of living in disadvantaged households, the urban *commune* of Fort Dauphin, in partnership with CARE association, is planning to launch projects of general interest managed by local community associations and carried out by the local population of four fokontany for 1,600 households.

The principle of the "Cash for Work" program involves paying the minimum wage to 500 households every year to perform high-intensity manual work, such as road building, cleaning up and clearing waste, or developing green areas and beaches, etc. during the interim period, or four months out of 12. Some 20 projects proposed by NGOs and local associations have been selected by the Fonds d'Investissement pour le Développement (FID) to be eligible for financing. The local community associations will receive training in improving management abilities and governance, to be provided by CARE.

It is anticipated that a portion of the pay for households will be deposited with CEM to promote the culture of savings. Assuming that 5% of the gains are saved annually, that represents potential annual savings of FMG 20 million for at least three years.

Moreover, the local associations that are created and supported by CARE can gradually form solidarity loan groups or mutual associations that could receive microcredits for income-generating activities. CARE does not yet have any experience in microfinance in Madagascar, so technical assistance from professional operators could be required.

E. POTENTIAL INTERVENTION ZONE FOR THE REGION OF FORT DAUPHIN

To take into account constraints and difficulties related to access, CEM could use the zone covered by the passable route from Fort Dauphin to Ambovombe. Its base could be its branch in Fort Dauphin. The zone would cover 25,000 rural families in about four years if the CEM operated with the GRET project throughout the entire zone of Androy.

F. PARTNERSHIP AND STRATEGY IN THE ZONE

The strategy is to increase the presence of the CEM by collecting rural savings in a way that will not run a deficit. To ensure in a certain financial benefit, the CEM must therefore develop several

partnerships simultaneously, accompanied by an attempt to achieve economies of scale in implementation. It can rely on:

- Its branch in Fort Dauphin
- The establishment of mobile staff to work with partnership institutions to allow the repatriation of savings at the same time as the assurance of periodically providing services in the areas of Ambovombe and Androy. In addition, that unit can also fully play its role as mobile teller for fishing villages along the intervention route, using the same system as the one developed for Fianarantsoa.
- Post offices in the secondary towns if cooperation between the two institutions is resumed.

Within that framework, the modes of intervention available to the CEM could therefore be:

1. Partnership with the ODDER network to recruit the 120 current clients and the thousands who will come along in three years
2. A contractual relationship with the “Cash for Work” program to make loyal customers of the 1,500 families concerned over three years
3. A contractual relationship with QMM for the 1,000 contract employees over the three years of construction to come. During operation, it is projected that there will be 500 fixed employees to make into loyal customers.
4. Establishment of a mobile unit owned by CEM for creation of a mobile teller that can circulate among fishing villages and the zone covered by GRET
5. Partnership with GRET to cover the 10,000 target clients in Androy in four years.

The mobile teller is useful for collecting savings and particularly for offering CEM services. The difference compared with Fianarantsoa is that the partners are already on the spot and CEM must reach an agreement with them to use their infrastructures. The mobile teller would therefore just be a transport vehicle.

It is obvious that the mobile teller should only be set up when GRET has achieved a certain volume, or in two years. During the first year, CEM could therefore concentrate on partners that are active in the rural area but have a base in town.

When savers and savings in the network have been accumulated, there will be significant assets enabling the CEM to achieve financial profitability.

G. DATA ON THE POTENTIAL MARKET FOR THE PARTNERSHIP

The projection below is only a summary because it is based on a consultation of documents and the results of interviews with the primary people responsible.

Key parameters for each partnership**With a mobile teller**

Fokontany Pêcheur	7	Fishing village located on the route from Fort Dauphin to Ambovombe
Number of families	500	Per fokontany
Penetration rate	5%	
Monthly savings	10,000	FMG per month

Fokontany public market around Ambovombe, Fort Dauphin, and possibly Amboasary		
Potential	5,000	Families
Rate	3%	Penetration rate lower because more difficult
Monthly savings	7,500	Probably lower than possibilities for fishermen

Partnership with the Odder network

Expansion to new sites	7	
Number of targets	120	Currently for one zone
Annual savings	13,000,000	Currently annual
Total number of targets	750	Considering that 90 customers can be recruited for the new sites

FUTURE PARTNERSHIP: for the next four years**Partnership with the GRET project** (the numbers below are estimates)

Start	2003	Probably 3,000 at the beginning
Clients at the beginning	3,000	Recruitment in 2003-2004
Predicted in four years	10,000	
Lending	200,000	FMG per client on average
Savings rate	8%	(estimate based on what is done at ODDER)

Cash for Work

Duration three years		
Number of families	500	per year
Compensation	200,000	per month
Number of months	4	months per year
Savings	5%	of compensation

QMM

Number of people	1,000	For three years during construction
	500	During operation (70 years)
Average salary	300,000	
Savings rate	5%	

Potential projections

The mobile teller must be acquired in year 2 and would be used for the partnership with GRET to collect savings at markets and fishing villages. Its cost would be similar to the case of Fianarantsoa without the intangible investments because the partners can provide that. The investment would therefore be FMG 250 million. The potential cash balance is provisionally

negative during the second year, returns to positive, and then becomes very significant in the following years (see Table IX.1).

Table IX.1 : Projections for the mobile teller					
Partnership		Year 1	Year 2	Year 3	Year 4
ODDER network	Number of savers	120	300	750	750
	Annual savings (in million FMG)	13	30	70	70
QMM	Number of savers	1,000	1,000	1,000	500
	Annual savings (in million FMG)	15	15	15	7,5
Cash for Work	Number of savers	500	500	500	
	Annual savings (in million FMG)	20	20	20	
GRET	Number of savers		1,000	3,000	7,500
	Annual savings (in million FMG)		16	48	120
Mobile teller					
Fishing village	Number of savers		175	350	350
	Annual savings (in million FMG)		21	42	42
Market in town	Number of savers		150	150	150
	Annual savings (in million FMG)		13.5	13.5	13.5
TOTAL	SAVER	1,620	3,125	5,750	9,250
	TOTAL AMOUNT (in million FMG)	48	115.5	208.5	253
	CUMULATIVE SAVINGS (in million FMG)	48	163.5	372	625
INVESTMENT			250		
CASH BALANCE (in million FMG)		48	- 6.5	122	375

H. CONCLUSIONS FOR FORT DAUPHIN

Immediately and in the short term, CEM could develop the collection of savings in rural areas located on the route between Fort Dauphin and Ambovombe by basing its efforts on the networks of existing institutions or attending markets and going to villages with a mobile teller. In the medium term, when the projects that are currently in their startup phase have expanded, it will be interesting to specify the potential partners among the following participants:

- GRET: Potential partner of CEM for collection of rural savings in Androy and more particularly in the region of Ambovombe. In five or six years, CEM may refinance the institution of GRET for needs exceeding current means (€765,000).
- The MAHAMPY association, which is to take over for ODDER to manage the microfinance section of the diocesan organization, making it a potential partner for CEM to collect rural savings around sites that are directly impacted by the QMM project in Anosy. CEM could refinance new needs of the institution in three or four years, possibly in partnership with QMM.
- CARE: Potential partner of CEM in the immediate vicinity for structuring of NGOs and local associations that could provide backup support for the collection of savings and the future distribution of microcredits.

- QMM: Potential partner of the CEM in providing support for development and creating sustainable microfinance institutions in the region of Androy. The company could increase part of the refinancing or subsidize the operating expenses of the institutions in the first years of their creation.

The key strategy is to seek economies of scale by developing several partnerships simultaneously, which could be done in two stages:

1. Establishing a contractual relationship with existing networks located in rural areas but having structures in town. Institutional relationships with a large company such as QMM could accompany this. This phase would make it possible to prepare for future partnerships.
2. Establishment of a mobile teller in a partnership with larger networks such as GRET to optimize costs.

X. COOPERATION WITH MFIs

A. MICROFINANCE NETWORKS IN MADAGASCAR

The microfinance sector in Madagascar is a young one, less than ten years old. The penetration rate, particularly in rural areas, is very low. It is estimated to be 3%, while the outgoing lending rates are high: between 24% and 36%. The total number of clients, urban and non-urban, is estimated to be 150,000, and the largest network has 50,000 members.

This sector is undermined by many problems that make the networks vulnerable, in spite of the intervention of various donors at different levels. The following can be mentioned, among others:

- Legal problems with regard to the very definition of microfinance, particularly for non-mutual institutions, including the CEM. The charging of VAT is another example.
- Problems of managing rural populations, who in some regions are nomads, for example. The move from one region to another and therefore from one savings bank to another.
- A default rate that is increasing considerably, rising from 5% in 2000 to 15% in 2002.
- Major problems of good governance at the administrative level, even of networks. There are conflicts of interest in mutual networks, which are essentially rural.
- Economic disasters such as the drought and imported wild rice as in 2001, which increase the vulnerability of members and of the networks.
- Development projects whose coverage overlaps with certain networks making zero-percent zones that lure members away.

However, ample products are offered in some networks: leasing, “*greniers villageois*” (peasants’ organizations to provide food security), mutual guarantee funds, etc. In addition, a guarantee fund that is active at the national level has been created to support requests for refinancing made to banks by these networks. In 2001, it was able to obtain FMG 22 billion in bank refinancing at an average rate of 16% not including VAT. That means that 29,000 clients of the network have been able to benefit from this.

Slightly less than half of savings are converted into microcredits. Given the current advantageous yields on treasury bonds with zero risk, some networks are attempting to favor investments in BTA treasury bonds to the detriment of making loans.

B. PARTNERSHIP FOR COLLECTING RURAL SAVINGS

Using mutual networks for collection is impossible because they compete with the CEM. The CEM cannot be only a second-level method for deposit. But two problems arise in this case:

- The CEM is not represented in certain regions

- The CEM yield, while similar to that of a frozen account, is much lower than the BTA bond rate, which those networks are starting to use much more frequently.

The only possibilities that are currently available are therefore:

- Using CEM's electronic transfer to provide fast security for cash balances in the provinces. But that involves provision of a service much more than a partnership.
- The partnership with microcredit operations supported by donors that want each recipient of those loans to deposit a portion of their gains in savings. The CEM could then be the receiving institution.

Non-mutual microfinance institutions are not strong in the rural sector. For example, Entreprendre à Madagascar has ceased operations in rural areas because of excessive transportation costs. Moreover, non-mutual MFIs do not have the legal right to collect savings from citizens. Therefore, it is impossible for the CEM to work with non-mutual MFIs to collect rural savings too.

C. PARTNERSHIP FOR REFINANCING OF NETWORKS

This is not truly a form of partnership but rather a commercial relationship as with banks. The CEM has already signed an agreement with Projet d'Appui à la Micro Finance (PAMF) to receive initial training on the microfinance system and refinancing systems.

Structure

The following process can be envisaged:

- The network submits a refinancing file to the CEM as is it does for banks
- CEM can request the intervention of:
 - Projects to support microfinance such as AGEPMF or PAMF to help assess the vulnerability of the requesting network
 - Outside experts that have previously been trained in evaluating financial situations and inherent risk
 - The UNEF guarantee fund to cover detected risks
- CEM commits to the loan and sets up a specialized division for this type of monitoring, control and recovery.

Analysis

The CEM must provide an internal structure for itself and apply for a specific license to be able to conduct this type of activity. The advantages of the system are:

- A yield that is theoretically 3% higher than the BTA treasury bond (13% vs. 10%), because that is current practice
- The possibility for the CEM to learn the profession of credit financing with fewer procedural problems because it has only a few clients to manage.

The disadvantages are:

- Obtaining and choosing the type of license involves the following difficulties:
 - Getting a bank license requires a structure and reference shareholder that probably cannot be obtained before the end of the privatization process. There is no schedule for doing this.
 - Licensing as a specialized financial institution is valid for the activity, but the Banking Law specifies that such institutions cannot collect voluntary deposits, which is what savings books are.
 - The current status of the CEM as a non-mutual institution is legally vague.
- CEM has not mastered this profession, which increases the amount of risk since a poor evaluation may be done.
- The volume of need for refinancing is currently valued at FMG 20 billion, of which only FMG 13 billion (USD 2 million) can be considered healthy. Since BOA is also active in this sector, there is the risk that payment rates will drop due to competition, which means that the activity would no longer be as interesting as the BTA treasury bond.

D. CONCLUSION

The partnership with mutual MFIs for direct collection of savings in rural areas is not possible because the two types of organizations compete. It is not possible to work with non-mutual MFIs, either, because they do not have the legal right to collect savings.

Technically, the refinancing of microfinance networks may be of interest for CEM because that would allow it to learn this type of activity without too many problems.

However, CEM would have to obtain a license, either as a bank or as a specialized financial institution, from CSBF which would authorize continuation of its demand savings activities. Current regulations do not favor the granting of this type of license to CEM.

Moreover, in the current situation with an advantageous yield of the BTA treasury bond, it is not always worthwhile to take a great deal of risk for such a small difference in profitability.

With regard to the license and before being able to handle refinancing, the best position for CEM is therefore to ask CSBF for new regulations that are more favorable to it to be issued by the public authorities. That is particularly the case since amendments to laws in the financial sector are being prepared, according to some people we have talked to. For the moment we are unaware of the shape of the changes being planned.

XI. SUMMARY OF POSSIBLE PARTNERSHIPS

The development of its network for collecting savings in both urban and rural areas fits in well with CEM's current strategy. CEM plans to create three to four branches per year in cities. For rural savings, CEM prefers to enter into partnerships with entities that are more familiar with that environment in order to facilitate penetration. The possibility of testing relations at pilot sites in the regions of Fianarantsoa and Fort Dauphin selected by USAID is the approach that has been chosen.

A. PARTNERSHIPS

Partnership	Strengths	Weaknesses
With the Post Office	It is profitable and positive. It is strategic. A commercial contract of limited duration provides sufficient leeway for the future.	Some advantages and concessions must be negotiated for towns where there are both post offices and CEM branches. Rural savings are only slightly affected by this.
Representation office provided by schools, health centers, and NGOs	These structures already exist, which can reduce the costs of opening a branch.	Areas of intervention are different. A lot of training would have to be provided.
Partnership with the network of Chemins de Fer Sud (Southern Railway)	The partnership is of great interest with the same potential as the Post Office.	A contract should not be signed until the privatization process has ended.
Partnership for collection of savings with mutualmicrofinance networks		Impossible because they compete with CEM.
Partnership for refinancing of microfinance networks	The rate of return is more interesting in spite of the risk of this type of investment.	In the current situation, CEM should negotiate with the supervising authority and CSBF to obtain a license that is not specifically allowed by the Banking Law.

B. PILOT SITES

Partnership	Strengths	Weaknesses
Mobile teller in Fianarantsoa	This makes it possible to expand and truly serve rural savings. The public mission of CEM is truly enhanced. Growth of presence in the zone and improved image.	System requires a lot more work in the field. Higher investment than creation of a branch in town. Profitability quite low.
Partnership with NGOs in Fort Dauphin	Structures exist already. The partnership can be steered from the branch in Fort Dauphin. By developing multiple partnerships, considerable economies of scale are possible. Partner structures are solid.	Low volume. Low profitability. Impact on rural savings rather limited.

XII. APPROACH TO PARTNERSHIPS

It will be noted that a system for collecting rural savings will not be deficit-ridden if it is conducted in a professional manner with the necessary means. However, it will be seen that profitability is not as high as it is in urban areas.

For the CEM, the collection of rural savings would fit in with its mission of being of public service. The motivation for tackling this activity must therefore not be financial – although there is no wish to run a deficit – but rather in terms of “positioning” and “growth of coverage.”

In terms of positioning, this type of activity would allow the state to acknowledge the CEM’s public and social utility, which would justify different treatment at all levels compared with common law regulation.

The increase in its collection coverage would offer several comparative advantages:

- It would increase the value of the CEM in the current privatization process, which would be beneficial for the state and promote its participation in the development of the country.
- It would offer a genuine service to a population group that has always been disadvantaged in terms of financial services and support. That service, which is favorably viewed by the population and communicated by word of mouth, can only improve its institutional image on the national scene.

To work toward those objectives in the current transitional situation, the best policy for CEM is to develop proactive partnerships with structures that are active in the areas immediately surrounding its branches with interventions on passable routes.

XIII. RECOMMENDATIONS

The CEM will be privatized, but it obviously has a public and social role to play by providing services to the largest number of people, according to the decree of 1985 which specifies its activities, and given the lack of new bylaws.

Lending activity

To supplement its current services, the CEM should therefore offer lending or refinancing to improve financial services to the population sector that is experiencing difficulties. That activity requires a license from CSBF. However, current legislation is not favorable for the CEM to obtain a license that suits its mission and objectives. With regard to the license, the best position for the CEM to take is therefore to ask CSBF for a new, more favorable regulation that is general or specific to CEM to be issued by the public authorities.

Savings activity

To fulfill its mission, CEM should do the following:

- Develop its urban network of branches to improve profitability
- Expand its partnership network to increase collection of rural savings, doing so for strategic reasons

We think a partnership with the Post Office is very beneficial and strategic for developing CEM's urban network. To better understand the problems involved in developing rural savings, we recommend partnership structures and pilot tests to the CEM.

Pilot tests

The CEM can develop a mobile teller in Fianarantsoa to serve villages that are accessible from its branch. The steps for conducting such an operation are:

1. Conducting a study on the type of public awareness campaign to be conducted in order to avoid making mistakes about the messages to be transmitted
2. Doing an additional socioeconomic analysis on the actual potential
3. If studies confirm that the project can be viable, it will then be possible to set up a two-year pilot project to validate the concepts and the approach.

After privatization of the Fianarantsoa-Manakara railway line, the CEM can evaluate the possibility of opening offices or negotiating an agreement with the new owners to open savings accounts for railway workers and villagers who live in areas along the railway line.

In Fort Dauphin, we recommend developing several partnerships simultaneously to achieve economies of scale that will lead to overall profitability. That could be done in two stages:

1. Establishing a contractual relationship with existing networks that operate in the rural environment but have a structure in town, particularly:
 - With CARE to open savings accounts for participants in the “Cash for Work” program
 - For large companies like QMM to develop individual savings or retirement savings
2. Afterwards, creating a mobile teller in partnership with larger networks such as GRET to optimize costs. Studies similar to those suggested for Fianarantsoa should be completed.

Institutional aspects

The CEM still plays a fundamental public and social role in the development of financial services that are accessible to the entire population. In our opinion there is not yet another institution that can play this role and have this capacity for action in the near future. The CEM should emphasize its ability to collect rural savings, and public authorities should give the CEM specific regulatory status so that it can fully play its role for the benefit of the country. A more in-depth institutional study should probably be done to establish the future positioning of CEM in Madagascar.